

ATTACHMENT D

PERCENTAGE COMPLETION ANALYSIS

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In accordance with the requirements of the contract, it is necessary to determine the physical as well as the fiscal percentage completion. A simple analysis of the physical completion immediately showed that less than [ ] of the contract had been completed. For this reason, it appeared more difficult to identify the value of the work not completed. Also available was an exact determination of the physical percentage of completion of the five (5) items of deliverable hardware which had been determined by our Planner and Scheduler on 25 October 1963.

It was also apparent that the determination of the hardware status did not, in and of itself, represent the real amount of work complete, since significant work had been accomplished in the areas of Program Management, Administration and Support; Engineering; and other support areas. We also recognize that this physical analysis should take into account the fact that in determining the physical percentage of completion we should segregate the non-fee-bearing work in order to make easier the fiscal analysis for incentive fee purposes.

For the above reasons, therefore, a simple formula is derived which states that "Unit" (hardware) work plus "Sustaining" (support areas) work plus Non-fee-bearing work equals 100% of the Contract work. Therefore, Unit work plus Sustaining work equals 100% of the Fee-Bearing work. From this formula we can then apply the physical percentage of the completion of the hardware and the analysis of the Sustaining work to determine the impact for incentive fee.

Exhibit A shows the Summary and allows us to determine that the Fee-bearing Actuals plus the Non-fee-Bearing Actuals equals the Total Actuals which are, in turn, shown on our cost invoices. By applying [ ] to the Total Estimated Costs for the Work Completed, the Target Fee dollars are derived. The incentive fee dollar amount is detailed in Exhibit B and, when added to the Target Fee dollar amount, the Total Fee Earned is derived.

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Exhibit B derives the Incentive Fee dollar value. In this instance, the Total Estimated Contract Target Fee-bearing Costs are multiplied by the physical percentage completion carried forward from Exhibit C. The application of the physical percentage of completion establishes the Estimated dollar value of the work performed and represents our cost position had our actual cost performance been coincident with the estimated cost. Therefore, by comparing our book "actual" cost for the work completed with the estimated cost, the difference for the application for the incentive formula is derived. The dollar value of the incentive fee earned, when added to [ ] of our Estimated Costs for the work completed (target fee), produces the "actual" fee. You will

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notice, however, that the value of this incentive fee earned is a number that is larger than the incentive fee indicated as Item 5 of Exhibit A. By contract, the application of the incentive formula cannot produce a total "actual" fee that is greater than  of our Estimated Costs for the Work Completed. Therefore, in this instance,  of our Estimated Costs becomes the maximum fee payable and must be used in the preparation of our final fee invoice. Items 10 through 14 of Exhibit B accomplish this calculation with Item 14 carried forward to Item 5 of Exhibit A. 25X1A 25X1A

Exhibit C derives the physical percentage complete for the total fee-bearing program. This derivation is based on assigning a weight to the amount of Unit and Sustaining work. This weight is actually the percentage that the Unit and Sustaining estimated costs each are of the total estimated fee-bearing costs. To establish the weight by this method is legitimate, since in the original estimate for the value of the work to be performed, it is assumed that a dollar's worth of work is performed for every dollar spent. From Exhibit D we carry forward the physical percentage complete for the Unit work and From Exhibit E the per cent complete derived for the Sustaining work. These percentages, when applied to the weight, produce the per cent/weight for each area which, when added, equals the total fee-bearing physical per cent complete. Item 4 of Exhibit C has been entered merely to reconcile the Total Estimated Target Cost contained in the contract.

It should be noted at this point that only the dollar values contained in the Definitive Contract are used in determining the per cent complete. We recognize that certain negotiations were concluded 9 December in an attempt to reconstruct the value of the work that was to have been performed. However, the addition of the dollar value would only serve to increase the physical per cent complete of the program. Since such an increase does not affect our percentage completion position, we have chosen not to include it in our analysis.

The second page of Exhibit D is the detailed analysis of the physical percentage completion of the units. The completion weight column represents the percentage of the work that each of the listed items represents as part of 100% of a unit through acceptance Testing at Boston. The services supplied by the Palo Alto organization are considered by us to be Sustaining costs and is discussed further on. Under each unit the Physical Per Cent Complete is entered against each item. This per cent is then multiplied by the Completion Weight to determine the Weight Per Cent for each unit which, when added, derives the Physical Per Cent Complete for each unit. These numbers are then carried forward to the Per Cent Complete column on page 1 of Exhibit D. Since the five units represent 100% of the unit work and each unit is essentially identical, we, therefore, determined that the completion of each unit represents 20% of the total Unit work. We, therefore, apply the Per Cent Complete for each unit to the Weight and the product determines the Per Cent Weight. Again, when these numbers are added, the Physical Per Cent Complete of the work is the result and is carried forward under Item 9 of Exhibit C.

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The analysis of the Sustaining work is not as straight-forward as the Unit work in the sense that the physical material is not the Sustaining work's output. Therefore, some other logical approach must be used to construct the point at which we should have been at the time of termination to compare with our actual output.

It is significant that the premise for the negotiation of the work identified by Sustaining effort was our ability to demonstrate that we were not "double pricing" the manpower estimated for the work in these areas. As you will recall, we exhibited manpower curves which demonstrated the spread of labor in these areas that was contemplated for this contract. To these estimates we had applied our latest cost-to-complete which, in fact, extended the estimated period of performance in some areas beyond the dates contemplated by the 9040 contract. The Palo Alto analysis is the best example of this situation in which we demonstrated, by name, that we had considered and prevented any possible "double pricing."

The balance of the estimate was determined to be a direct function of time which was consistently related to the delivery of hardware and was at a level necessary to support such a delivery schedule. Therefore, it is an acceptable premise to relate the work in this sustaining area directly as a function of time.

It is possible to accurately determine the cost position that each of these areas should have been in at the time of termination from the spreads of our negotiated cost statements. The relationship of this position to the total estimate for the job would, therefore, determine the percentage of completion. Exhibits E and F demonstrate the source, technique, and derivation of the per cent complete of the sustaining work.

Page 1 of Exhibit E lists the three areas of work in the sustaining category. The Total Estimated Target Cost column sums to the total dollar value of the sustaining work portion of the total contract estimated cost. By determining the per cent that each area is of the total, the Weight results. The Per Cent/Weight is the product of the Per Cent Complete times the Weight. The sum of the Per Cent/Weight column, therefore, derives the Per Cent Complete of the Sustaining work. Page 2 of Exhibit E determines the Per Cent Complete. Our position 25 October 1963 is derived by determining our cumulative estimated cost position through that date from our negotiated cost spreads. The Per Cent Complete numbers are derived by determining the per cent our position 25 October is of the Total Estimated Target Cost.

Page 3 of Exhibit E is a reconciliation of our sustaining costs with the unit costs to coincide with the Total Fee-bearing Target Costs that were contained in the Definitive Contract. Additionally, we have similarly reconciled our estimated target cost position through 25 October.

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The purpose of Exhibit F is to show how we, in fact, reconciled and distributed the reductions which we accepted at the negotiation of the Contract. Page 1 is included to demonstrate the Palo Alto total cost estimate as well as to provide credence for the total estimated costs for the Boston effort. The sum of the Boston and Palo Alto fee-bearing cost base numbers is shown at Item 3 on page 3 of Exhibit E.

Pages 2 and 3 of Exhibit F is a reconciliation of the Boston effort between the negotiated amounts and the proposed amounts. You will note that the Palo Alto effort did not need to be reconciled since, in our opinion, we did not intend to adjust their budget. Pages 4 and 5 of Exhibit F are cost summaries for the Program Management, Administration, and Support as well as the Engineering area of the Sustaining work. These total dollar values are brought forward to pages 2 and 3 of Exhibit E. Page 6 of Exhibit F is the negotiated cost summary for the unit fee-bearing work. From the reconciliation pages 2 and 3 of Exhibit F, you will note that the Management and Engineering areas were affected only in the labor areas and that the adjustments for target drives and cleanroom modifications were totally contained in the unit work areas. Also, the Non-Fee-Bearing Costs were subtracted from the unit cost areas.

Throughout this cost analysis you will note that we have used the proposal format, since it was the basis of our original discussions for the Definitive Contract. This technique is also desirable because the reductions agreed upon at the negotiation could be readily identified with the work areas concerned. It was further considered that the proposal format contained numbers with which we were both familiar and would lend further credence to the technique in making our presentation.

As you are aware, we have spent considerable time and effort in attempting to determine the most fair and reasonable technique for presenting this completion analysis to you. We recognize that to a degree it is complex, but we feel it is the simplest and most straightforward way to attach the problem and derive what we believe to be a reasonable and equitable claim for compensation for the work performed.

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